

§ 1.987-1

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principles of paragraph (c)(3)(i) of this section. However, if such QBU holds Country X currency, the QBU shall take into account any unrealized exchange gain or loss pursuant to the principles of paragraph (c)(3)(iii) of this section as if the currency was disposed of on the day prior to the day the euro is substituted for the Country X currency. Similarly, if the QBU makes an election under the principles of paragraph (c)(3)(iv) of this section, the QBU shall take into account for all purposes of the Internal Revenue Code the amount of any unrealized exchange gain or loss attributable to a legacy currency denominated item described in section 988(c)(1)(B)(ii) as if the item were terminated on the day prior to the day the euro is substituted for the Country X currency.

(e) *Effective date.* This section applies to tax years ending after July 29, 1998.

[T.D. 8927, 66 FR 2216, Jan. 11, 2001; T.D. 8927, 66 FR 21447, Apr. 30, 2001]

§ 1.987-1 Profit and loss method of accounting for a qualified business unit of a taxpayer having a different functional currency from the taxpayer. [Reserved]

§ 1.987-2 Accounting for gain or loss on certain transfers of property. [Reserved]

§ 1.987-3 Termination. [Reserved]

§ 1.987-4 Special rules relating to QBU branches of foreign taxpayers. [Reserved]

§ 1.987-5 Transition rules for certain qualified business units using a profit and loss method of accounting for taxable years beginning before January 1, 1987.

(a) *Applicability*—(1) *In general.* This section applies to qualified business unit (QBU) branches of United States persons, whose functional currency (as defined in section 985 of the Code and the regulations thereunder) is other than the United States dollar (dollar) and that used a profit and loss method of accounting for their last taxable year beginning before January 1, 1987. Generally, a profit and loss method of accounting is any method of accounting under which the taxpayer calculates the profits of a QBU branch in

its functional currency and translates the net result into dollars. For all taxable years beginning after December 31, 1986, such QBU branches must use the profit and loss method of accounting as described in section 987, except to the extent otherwise provided in regulations under section 985 or any other provision of the Code. See § 1.989(c)-1 regarding transition rules for QBU branches of United States persons that have a nondollar functional currency and that used a net worth method of accounting for their last taxable year beginning before January 1, 1987.

(2) *Insolvent QBU branches.* A taxpayer may apply the principles of this section to a QBU branch that used a profit and loss method of accounting for its last taxable year beginning before January 1, 1987, whose \$E pool (as defined in paragraph (d)(3)(i) of this section) is negative. For taxable years beginning on or after October 25, 1991, the principles of this section shall apply to insolvent QBU branches.

(b) *General rules.* Generally, section 987 gain or loss occurs when a QBU branch makes a remittance. A remittance is considered to be made from one or more functional currency pools under rules provided in paragraph (c) of this section. In general, the amount of section 987 gain or loss from a remittance equals the difference between the dollar value of the functional currency adjusted basis of the property remitted and the portion of the dollar basis in the applicable pool. Section 987 gain or loss is calculated under a 4-step procedure described in paragraph (d) of this section. Section 987 gain or loss attributable to a remittance is realized and must be recognized in the taxable year of the remittance except to the extent otherwise provided in regulations.

(c) *Determining the pool(s) from which a remittance is made*—(1) *Remittances made during taxable years beginning after December 31, 1986, and before October 25, 1991.* A remittance made during taxable years beginning after December 31, 1986 and before October 25, 1991, first represents an amount of the QBU branch's post-86 profits pool (including functional currency profits for the current taxable year determined without regard to remittances made during the